

Installment Service Purchase Program

The Installment Service Purchase Program is available to active members who wish to purchase additional service credit without remitting a lump-sum payment. When a member elects to participate in this program, the Retirement Systems credits the member's account for the total cost of the service and the total service credit being purchased. The member's employer then payroll deducts the payments each pay period from the member's salary. Installment payments have historically been **after tax** deductions; not tax deferred like a member's retirement contributions.

As of January 1, 2005, members may choose to participate in our pre-tax or after tax installment option. The pre-tax installment option has more restrictions than after-tax. For members to be able to participate in this expanded option, employers must complete an initial resolution with the Retirement Systems, the *Employer Resolution on Tax Deferred Payroll Deductions for Installment Purchase* (Form 3228), which permits the employer "pickup" of the employee deductions and provides details on procedures and restrictions. This tax-deferred option also requires a binding, irrevocable authorization between the member and the Retirement Systems that sets forth the payment term and deduction amount. One distinct difference in the pre-tax and after-tax option is that with the pre-tax option, once deductions are initiated, the member cannot decrease the payroll deduction amount, except in the event of an unforeseeable emergency as defined by section 457 of the Internal Revenue Code, until the amount is paid in full or the member terminates employment. The member will also not be allowed to make principal payments on tax-deferred accounts.

A member must pay his or her installment purchase in full prior to the member's anticipated retirement date or termination. Service will be prorated if the full balance is not received. For more information about installment service purchases, contact Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov, or the Service Accounting Department at (803) 737-6905.

Interest Rate

A fixed rate of interest applies to the unpaid balance of an installment service purchase for the duration of the installment. The Service Accounting Department adjusts the interest rate for new participants in this program every July 1 to the prime rate plus 2 percent. The current interest rate is 6 percent for new installment accounts activated July 1, 2004, through June 30, 2005. The interest rate is fixed for the term and does not change for members already purchasing service through the Installment Service Purchase Program. For a payroll deduction estimate and current interest rate cost quote, simply complete the bottom portion of your service invoice and return to: Installment Accounting, SCBCB Retirement Systems, P.O. Box 11960, Columbia, SC 29211-1960. We will return to you a payment plan quote. Payroll deductions will not begin until after you receive your cost quotation, and you officially authorize us, by signature, to notify your employer to begin deductions.

Eligibility Criteria

Requirements for participating in the Installment Service Purchase Program are as follows:

1. The individual must be an active contributing member;
2. The total cost of service must be at least \$500 or the period of service being established must be at least six months; and
3. The maximum installment payment period is two years for each year of service purchased.

How to Participate in the Installment Service Purchase Program

1. A member must complete and return a *Request for Service Purchase Cost* (Form 2101). The Service Department will verify the additional service and provide the member with a *Member Service Payment Invoice*.
2. After receiving a *Member Service Payment Invoice*, the member should complete the bottom section indicating the installment type, payment amount required (amount due), down payment amount (optional), amount to be financed (member payment less down payment), number of months to be financed, and pay frequency (number of checks received per year). The member should then return the invoice to the Service Accounting Department.
3. After processing, the Service Accounting Department will return to the member a *Payroll Withholding Authorization* (Form 3216) for non-deferred installments or an *Employer Resolution on Tax Deferred Payroll Deductions for Installment Purchase* (Form 3228) for tax-deferred installments. The member should verify all information, sign the form, and return it to the Service Accounting Department with any optional down payment.
4. Upon receipt of all signed documents, the Service Accounting Department activates the installment service purchase and initiates the payroll deduction.

Employers on the Comptroller General's Payroll System

If a member's employer is on the Comptroller General's payroll system, the Retirement Systems' Service Accounting Department submits a form that authorizes and initiates the payroll deduction directly to the Comptroller General's Office. The Comptroller General's Office then submits remittances for each payroll directly to the Retirement Systems.

NOTE: Employers should indicate pre-tax payments separately after January 1, 2005.

Employers Not on the Comptroller General's Payroll System

If a member works for an employer not on the Comptroller General's payroll system, the employer is responsible for initiating the payroll deduction. The employer is responsible for appropriately reporting the deductions as after-tax or pre-tax to the IRS. The following reporting procedures apply:

1. Installment payments do not affect current monthly or quarterly contribution procedures. A separate remittance is required. Checks should be made payable to the South Carolina Retirement Systems. Only one check is required for all systems.

2. The employer must attach a detailed report with each check that includes the following:
 - ❖ Employer name;
 - ❖ Primary employer code;
 - ❖ Payroll date;
 - ❖ Member name(s);
 - ❖ Member Social Security Number(s);
 - ❖ Member deduction amount(s); and
 - ❖ Total amount of remittance.

Payments on an Installment Service Purchase

Pre-tax and After-tax Options

- ❖ Payments are due to the Retirement Systems five days after each payday. Late remittance of payments results in the continued accrual of interest on a member's account until the date payment is received.
- ❖ If a member terminates employment, retires, or dies prior to paying the installment purchase in full, the member or the beneficiary has the option to pay the remaining balance in full to obtain full service credit, or to take the prorated portion of the original service and contributions based on principal payments already made.

After-tax Option Only

- ❖ A member may make additional payments at any time and apply them directly to the principal of the installment note. A member may pay an installment note in full ahead of time by calling and getting a payoff for the date by which the member wants to pay the installment in full. There is no penalty for early payment in full of a note.
- ❖ A member with funds in the South Carolina Deferred Compensation Program's 401(k) or 457 plans, a 403(b) plan, another qualified retirement plan, or an IRA, may rollover funds at any time on non-deferred installments:
 - Use as a down payment when establishing the installment note;
 - Use as a principal payment after the note is established; or
 - Satisfy the installment note.

When the Installment Purchase Nears Maturity

The employer will be notified of the final installment payment and due date. After receipt of the final payment, the Service Accounting Department will notify both the member and the employer that the installment purchase is complete. Once the employer receives notification that the installment purchase is paid in full, the employer **should not** remit any additional payments. Any remittances received after a note is paid in full will be refunded directly to the member for non-deferred installments. For remittances received after a note is paid in full for tax-deferred installments, refunds will be made to employers.